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#### IMF Says Spain Can Increase Stimulus

1.(U) In a Washington teleconference March 19, the IMF pointed to Spain as one of the countries that can do more to address its economic difficulties through additional stimulus measures for 2010. Comment: So far, the GOS has implemented two major stimulus packages including an 18 billion-euro tax rebate package in April and an 11 billion-euro infrastructure plan in November. This effort and increased unemployment spending have taken Spain from a 2 percent of GDP surplus in 2007 to around a 6 percent deficit this year. However, the stimulus packages announced to date focus more on 2008 and 2009, perhaps because of initial GOS projections that the economy would begin to recover by the end of 2009. Hence there may be room for measures to address 2010. (ABC, 3/20).

#### Loan Delinquency Rate Rises to 3.8%

2.(SBU) According to the Bank of Spain, the average delinquency rate reached 3.79 percent in January, almost four times the January 2008 rate of 0.96%. Experts say that delinquency may reach 9% in the upcoming year. Especially affected are Spain's savings banks ("cajas"), which are more exposed to Spain's housing market crash, and which are suffering a delinquency rate of 4.45 percent. Comment: Presidency Economic Office officials told post that the steep rise in delinquency is a concern, however, they believe that strict provisioning requirements imposed by the central bank have given Spain's financial institutions a sufficient cushion to deal with high default and delinquency levels. One staff member said that Spain's financial system as a whole would be able to deal with a delinquency rate of 9 percent "comfortably." (Europa Press, 3/16)

Savings Bank Association President Says GOS Intervention  
Needed

3.(U) During a March 18 Congressional hearing, the President of Spain's Savings Banks Association (CECA), Juan Ramon Quintas, urged the GOS to take firm action to strengthen the solvency of Spain's financial institutions as well as to assist those families having difficulty paying their mortgages. Quintas warned that failure to do so would result in the risk of "systematic failures." These comments conflict with those made by the head of Spain's banking association, Miguel Martin Fernandez, who in recent weeks has stated that Spain's financial institutions were in a strong position and that government intervention was not necessary. Additionally, Martin Fernandez suggested to Congress in testimony that those financial entities that were not viable should be allowed to fail, presumably referring to smaller cajas facing problems from high exposure to Spain's housing market downturn. Spain's cajas are responsible for about half of Spain's loans. (All Media, 3/18)

Venezuela's Chavez Re-Announces Intention to Nationalize  
Banco Santander Subsidiary

4.(U) Media reported heavily March 20 on the announcement made by Venezuelan President Chavez for the second time that the GOV would nationalize Banco de Venezuela (BdV), which is owned by Spain's largest bank, Banco Santander. President Chavez initially made an announcement last July that the GOV would purchase BdV, but subsequent negotiations on the actual transfer had appeared to lose steam (reftel). News reports indicate that GOV had offered last year 1.1 billion euros to purchase the bank but that Santander had asked for 1.3 billion. Santander's stock price fell 2.5% on the news. (All

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Media, 3/20)

Telefonica to Reduce Phone Bills for Unemployed and for Small  
Businesses

5.(U) Spain's largest telecoms company, Telefonica, has announced plans to forgive half of phone charges, up to 40 euros per month, for the first 250,000 unemployed clients that apply. The program will be in effect until the end of the year. In addition, Telefonica will provide a discount of up to 50% for small businesses created after March 1, 2009. The program is unique in Spain, and is a reflection of the financial stability Telefonica is experiencing, particularly because of its profitable operations in Latin America. Its competitors have labeled the offer a marketing ploy. (El Pais, 3/18)

CHACON